

Democrats took control of Congress this year with a pledge to be more fiscally responsible than their Republican counterparts. Trying to fulfill that promise, however, has caused strains among lawmakers, forced cutbacks in big policy goals and snagged major legislation.

Thus far, it has complicated efforts to pass tax breaks for renewable energy, slowed progress on a farm bill and become a sticking point with the Bush administration over an effort to expand children's health insurance. It's a big reason Congress has made slow progress on some of its top priorities.

The rule is going to cause even bigger fights as Democrats scramble to finish important bills. One bill would prevent millions of additional people from being required to pay the alternative-minimum tax, or AMT, this year, and it would extend dozens of expiring tax provisions; another would increase Medicare payments to physicians. Under the pay-as-you-go rule, Congress will have to find more than \$70 billion to pay for those items alone.

There are many reasons behind Congress's troubles, including vetoes from President Bush, a razor-thin margin of majority in the Senate and the bitter politics of the Iraq war, but paygo underpins many of the struggles. It requires lawmakers to vote for tax increases or spending cuts that hit powerful industries and campaign contributors, and it introduces a tangle of considerations to already-complex bills.

"We are hemmed in by reality, and that reality is paygo," said Rep. Richard Neal, a Massachusetts Democrat whose attempt to engineer a permanent repeal of the AMT was derailed in part by the rule.

Now Democrats are faced with an unpalatable choice: Either abandon paygo and undercut their message of fiscal responsibility, or endeavor to push difficult legislation through both chambers when the risk of failure is high. Congress's approval ratings are already low, and Republicans, who reject the current paygo concept, are likely to argue to voters that the institution has lost its way.

**Republicans say the rule does nothing to tackle long-term budget problems, such as financing Medicare and Social Security, and that it encourages tax increases. "It's clear we have lost that mantle of fiscal responsibility," said Rep. John Campbell, a California Republican, "but I don't think the Democrats have successfully picked it up."**

A version of the pay-as-you-go rule was passed in 1990 in a bipartisan effort to shrink the budget deficit. By the late 1990s, lawmakers began waiving it as the budget ran surpluses. In 2002, Congress allowed it to expire. Democrats revived it this year after what they describe as out-of-control spending by their Republican predecessors. To waive the rule in the Senate requires 60 votes; in the House, it requires a decision by the Democratic leadership and a majority vote in the full chamber.

The rule's loudest cheerleaders are in the House, where many Democrats, particularly those from heavily Republican districts, have promised a new era of fiscal discipline. They have passed dozens of bills this year that comply with the rule, including a \$20 billion package of college-student aid funded with cuts in subsidies to student lenders; the bill ultimately became law.

"It's not easy, and you don't make friends doing it," said Rep. John Tanner, a Tennessee member of the Blue Dog coalition, conservative Democrats who have long pressed for the rule. But, he said, "The laws of arithmetic don't apply to everyone but the U.S. government."

Some of the biggest proponents in the House, including Rep. Tim Mahoney (D., Fla.) and Rep. Allen Boyd (D., Fla.), are raising concerns about how the House plans to pay for the AMT bill.

In the Senate, where Democrats have a narrower margin of control, the budget rule often is an impediment. This summer, Montana Sen. Max Baucus brought a \$32 billion package to the Senate floor providing tax breaks for renewable energy. He planned to pay for the changes with reductions in tax breaks for big oil companies. Amid heavy industry lobbying, the measure failed to get the 60 votes necessary to move forward. The future of the energy tax breaks is uncertain, even though it was one of Democrats' main agenda items.

To comply with the rules while expanding the Children's Health Insurance Program, Democrats pared the amount of new spending in order to get Republican support. The bill is about to draw its second veto from President Bush. While many of his objections center on ideological differences with Democrats, the president also opposes the way Congress chose to fund the added spending: an increase in the federal tobacco tax, worth \$35 billion over five years.

The AMT is likely to be the biggest test of Democrats' commitment to pay as you go. This year, Mr. Neal, the Massachusetts Democrat, floated a plan with small groups of House Democrats to increase taxes paid by upper-income people in order to fund permanent relief for middle- and upper-middle-income people. Mr. Neal held hearings on AMT and pushed for House action. However, some Democrats were nervous about the prospect of voting for a tax increase and thus providing fodder for negative campaign ads, especially if the plan wasn't going to become law. Already, the Senate has signaled it won't take up the plan.

Now, Rep. Charles Rangel of New York, chairman of the House tax committee, is trying to advance a bill that would fix the AMT for one year before it envelops 24 million new taxpayers. Many Republicans and some Democrats object to how he plans to pay for this plan: raising taxes on a portion of private-equity managers' compensation called "carried interest," a provision that faces almost no chance of Senate passage. The concept drew a veto threat from the White House yesterday.

The pay-as-you-go rule frustrates Mr. Rangel, who often must find the necessary funding for legislation. "I am at odds with paygo," he said.

The possibility of waiving the rule has sparked angry outbursts. When Republican and Democratic senators met recently to discuss the AMT, Sen. Baucus raised the possibility of lifting the rules for a short-term fix. Sen. John Kerry (D., Mass.), was leery of paying for something short of full repeal. Several Republicans suggested repealing the AMT permanently and extending the 2001 and 2003 tax cuts, without finding offsetting revenue.

Sen. Kent Conrad, (D., N.D.), a staunch supporter of the rule, stormed out of the meeting after hearing what the Republicans said. He told a reporter from Capitol Hill publication CongressDaily that what was being discussed was "unbelievably irresponsible."

"We've got to start paying our bills around here," Mr. Conrad said in a later interview. "We can't just keep borrowing money from China and Japan."

In an interview, Mr. Baucus suggested he still supports the idea. "If we didn't have it, we'd certainly be criticized: 'There they go again, there those Democrats go, tax and spend, tax and spend, tax and spend,'" he said. "We're trying to be responsible."